CITY OF SANTA CLARA
ELECTRIC UTILITY ENTERPRISE FUND
(SILICON VALLEY POWER)
FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

CITY OF SANTA CLARA, CALIFORNIA

1500 WARBURTON AVENUE

SANTA CLARA, CA 95050-3796

PREPARED BY DEPARTMENT OF FINANCE

CITY OF SANTA CLARA ELECTRIC UTILITY ENTERPRISE FUND
(SILICON VALLEY POWER)

TABLE OF CONTENTS

MAZE & ASSOCIATES

INDEPENDENT AUDITOR'S REPORT

To the Mayor and the Honorable Members of the City Council
City of Santa Clara, California

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Santa Clara Electrical Utility Enterprise Fund (Silicon Valley Power) of the City of Santa Clara, California, as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise Silicon Valley Power's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to Silicon Valley Power's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Silicon Valley Power's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Silicon Valley Power as of June 30, 2015 and 2014, and the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Management adopted the provisions of the following Governmental Accounting Standards Board Statements, which became effective during the year ended June 30, 2015 and required a prior period adjustment to the financial statements as discussed in Note 2R to the financial statements:

- Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*.

- Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68.*

The emphasis of these matters does not constitute a modification to our opinions.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and the Required Supplementary Information as listed in the Table of Contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

As discussed in Note 2, the financial statements present only the Silicon Valley Power and do not purport to, and do not present fairly the financial position of the City of Santa Clara as of June 30, 2015 and 2014, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2015, on our consideration of Silicon Valley Power's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Silicon Valley Power's internal control over financial reporting and compliance.

Maze & Associates

Pleasant Hill, California
November 30, 2015

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Silicon Valley Power (SVP) financial statements presents a narrative overview and analysis of the financial activities for the fiscal year. Please read this document in conjunction with the accompanying Basic Financial Statements.

SVP is a separate enterprise fund of the City of Santa Clara (the City), and was established to account for the electric power transactions of the City. SVP owns power generation facilities, has investments in joint ventures that produce electric power, and trades power on the open market. These efforts are directed toward ensuring its retail customers—the citizens, organizations and businesses of the City—have a reliable source of electric power at reasonable rates.

SVP has been affected by the deregulation of the electric power industry in California, as discussed in detail in Note 8 to its financial statements.

OVERVIEW OF SVP'S BASIC FINANCIAL STATEMENTS

The Basic Financial statements are in two parts:

1. Management's Discussion and Analysis (this part),
2. The Basic Financial Statements, along with the Notes to these Financial Statements.

The Basic Financial Statements provide both a short-term and a long-term view of SVP's financial activities and financial position.

The Financial Statements are comprised of the Statements of Net Position, the Statements of Revenues, Expenses and Changes in Net Position, and the Statements of Cash Flows. The Statements of Net Position provide information about the financial position of SVP as a whole, including all its long-term liabilities on the full accrual basis. The Statements of Revenues, Expenses and Changes in Net Position provide information about all SVP's revenues and all its expenses, also on the full accrual basis, with the emphasis on measuring net revenues or expenses of the program. The Statements of Cash Flows provide information about cash activities for the year.

During the fiscal year 2014-2015, SVP implemented Governmental Accounting Standard Board Statement (GASB) No. 68 and 71 for pension accounting and financial reporting. As a result, SVP recorded a net pension liability of $69 million. Additional information can be found in Note 7 to financial statements.

FISCAL YEAR 2014-15 FINANCIAL HIGHLIGHTS

The following is summarized financial information from the Statements of Net Position (Table1) and the Statements of Revenues, Expenses and Changes in Net Position (Table 2).

Please note that financial information in the following tables for the prior fiscal year ended June 30, 2014 was not adjusted for implementation of GASB 68 and 71 because not all of the information was available to adjust prior year amounts.

Table 1
Net Position
June 30, 2015 and 2014
(in millions)

			Increase (Decrease)		
Description	**2015**	**2014**	**Amount**	**%**	**2013**
Cash and investments	$ 238.6	$ 277.1	$ (38.5)	-13.9%	$ 246.0
Other assets	122.3	104.7	17.6	16.8%	103.1
Capital assets	559.6	531.8	27.8	5.2%	532.9
Total Assets	920.5	913.6	6.9	0.8%	882.0
Deferred Outflows of Resources:					
Deferred outflows on derivative instruments	9.2	10.2	(1.0)	-9.8%	10.6
Deferred outflows on refunding	6.7	7.2	(0.5)	-6.9%	7.8
Deferred outflows on pension realted items	5.4	-	5.4	N/A	-
Total Deferred Outflows of Resources	21.3	17.4	3.9	22.4%	18.4
Long-term liabilities outstanding (including current portion)	226.8	237.4	(10.6)	-4.5%	214.6
Net pension liabilities	69.1	-	69.1	N/A	-
Other liabilities	44.3	30.2	14.1	46.7%	31.2
Total Liabilities	340.2	267.6	72.6	27.1%	245.8
Deferred Inflows of Resources:					
Deferred inflows on derivative instruments	0.7	-	0.7	N/A	-
Deferred inflows on refunding	0.5	0.5	-	0.0%	0.6
Deferred inflows on pension realted items	9.8	-	9.8	N/A	-
Total Deferred Inflows of Resources	11.0	0.5	10.5	2100.0%	0.6
Net Position:					
Net investment in capital assets	356.1	334.2	21.9	6.6%	351.7
Unrestricted	234.5	328.7	(94.2)	-28.7%	302.3
Total Net Position	$ 590.6	$ 662.9	$ (72.3)	-10.9%	$ 654.0

Table 2
Revenues, Expenses and Changes in Net Position
For the years ended June 30, 2015 and 2014
(in millions)

Description	2015	2014	Increase (Decrease) Amount	Increase (Decrease) %	2013
Revenues:					
Retail	$ 332.9	$ 309.2	$ 23.7	7.7%	$ 298.8
Wholesale	27.3	28.6	(1.3)	-4.5%	22.3
Interest Revenue	1.6	1.7	(0.1)	-5.9%	2.7
Net increase (decrease) in fair value of investment	0.4	1.9	(1.5)	-78.9%	(3.8)
Rents and royalties	3.5	2.7	0.8	29.6%	2.9
Renewable energy credit	2.1	5.4	(3.3)	-61.1%	6.8
Other	16.0	22.6	(6.6)	-29.2%	20.4
Total Revenues	383.8	372.1	11.7	3.1%	350.1
Expenses:					
Retail	330.7	319.7	11.0	3.4%	295.8
Wholesale	32.6	28.9	3.7	12.8%	24.7
Interest on long term debt	9.0	8.6	0.4	4.7%	11.1
Other	9.5	5.6	3.9	69.6%	5.1
Total Expenses	381.8	362.8	19.0	5.2%	336.7
Increase (decrease) in net position before transfers	2.0	9.3	(7.3)	-78.5%	13.4
Transfers in (out)	(0.5)	(0.4)	(0.1)	-25.0%	(0.9)
Increase (decrease) in net position	1.5	8.9	(7.4)	-83.1%	12.5
Net Position - July 1 as adjusted [1]	589.1	654.0	(64.9)	-9.9%	641.5
Net Position - June 30	$ 590.6	$ 662.9	$ (72.3)	-10.9%	$ 654.0

[1] Amount for July 1, 2014 has been adjusted due to the implementation of GASB 65.

SVP retail operating revenues were $332.9 million in fiscal year 2014-15, $309.2 million in fiscal year 2013-14, and $298.8 million in fiscal year 2012-13, reflecting increases of approximately 7.7% and 3.5% from fiscal years 2013-14 and 2012-13, respectively. The main reason for the increase in fiscal year 2014-15 was due to a rate increase of 5% effective January 1, 2015.

Retail operating expenses were $330.7 million in fiscal year 2014-15, $319.7 million in fiscal year 2013-14, and $295.8 million in fiscal year 2012-13, an increase of $11.0 million or 3.4% and an increase of $23.9 million or 8.1% from fiscal years 2013-14 and 2012-13, respectively. The retail operating expenses for fiscal year 2014-15 were higher primarily due to increases in the cost of purchased power ($4.3 million), operation costs ($6.0 million), maintenance costs ($0.5 million) and depreciation expense ($0.5 million).

Revenues from wholesale power sales were $27.3 million in fiscal year 2014-15, $28.6 million in fiscal year 2013-14, and $22.3 million in fiscal year 2012-13. Concurrently, the cost of wholesale power purchases was $32.6 million in fiscal year 2014-15, $28.9 million in fiscal year 2013-14, and $24.7 million in fiscal year 2012-13. The increase in wholesale power purchases was due to additional market purchases due to the drought as well as higher purchased power contract prices.

Interest income was $1.6 million in fiscal year 2014-15, $1.7 million in fiscal year 2013-14, and $2.7 million in fiscal year 2012-13. The decrease in the current fiscal year was primarily the result of a lower cash balance and continued low interest rates due to Federal Reserve decisions not to increase interest rates. Interest expense was $9.0 million in fiscal year 2014-15, $8.6 million in fiscal year 2013-14, and $11.1 million in fiscal year 2012-13. Annual interest expense varies based on existing debt service amortization schedules for outstanding utility bonds.

The Electric Utility Fund had a net position of $590.6 million at June 30, 2015, a decrease of $72.3 million from the prior fiscal year. Of this amount, $21.9 million was an increase in net investment in capital assets and $94.2 million was a reduction of unrestricted net position. The adjusted net position at July 1, 2014 of $589.1 million reflected a decrease of $73.8 million as a result of implementation of GASB 68. The Net Position as of July 1, 2013 is $654.0 million. At June 30, 2014, the Electric Utility Fund had a net position of $662.9 million, an increase of $8.9 million from fiscal year 2012-13.

CAPITAL ASSETS

At the end of fiscal year 2014-15, SVP had $559.6 million, net of depreciation, invested in capital assets, with a significant amount in power generation facilities and the remainder in transmission and distribution assets. At June 30, 2015, SVP had various projects completed or under construction. In fiscal year 2014-15, the Capital Improvement Projects Budget included appropriations for significant investments in substation improvements in the coming years.

Further detail may be found in Note 4 to the financial statements.

DEBT ADMINISTRATION

Each of SVP's debt issues is discussed in detail in Note 5 to the financial statements. At June 30, 2015, SVP's debt is comprised of three issues of Revenue Bonds with carrying balances of $226.8 million at that date. These Bonds are secured by electric revenues earned by SVP, and mature in fiscal years through 2033.

ECONOMIC OUTLOOK AND MAJOR INITIATIVES

The economy of the City and its major initiatives for the coming year are discussed in detail in the Letter of Transmittal Section of the City's Comprehensive Annual Financial Report for the year ended June 30, 2015.

CONTACTING SVP'S FINANCIAL MANAGEMENT

These Basic Financial Statements are intended to provide citizens, taxpayers, investors, and creditors with a general overview of the SVP's finances. Questions about these Statements should be directed to the City Finance Department, at 1500 Warburton Avenue, Santa Clara, CA 95050-3796.

CITY OF SANTA CLARA ELECTRIC UTILITY ENTERPRISE FUND
(SILICON VALLEY POWER)
STATEMENTS OF NET POSITION
June 30, 2015 and 2014

ASSETS	**2015**	**2014**
Current Assets:		
Pooled cash and investments (Note 3)	$ 238,643,608	$ 254,864,491
Investments with fiscal agent (Note 3)	8,869,238	7,875,869
Receivables (net of allowances)		
Accounts	42,937,502	41,657,901
Interest	274,555	342,463
Due from the City of Santa Clara (Note 2E)	1,889,167	2,321,989
Inventory of materials and supplies and prepaid (Note 2F)	12,441,972	13,390,012
Derivative Instrument (Note 5F)	666,648	-
Total Current Assets	305,722,690	320,452,725
Noncurrent Assets:		
Capital assets (Note 4)		
Land	22,872,234	14,379,593
Construction in progress	41,224,610	27,066,703
Buildings, improvements and infrastructure	861,953,802	837,264,421
Equipment	10,416,267	10,603,625
Accumulated depreciation	(376,833,487)	(357,484,354)
Total Capital assets (Net of accumulated depreciation)	559,633,426	531,829,988
Other Noncurrent Assets:		
Investments in joint ventures (Note 6)	34,581,763	39,300,858
Investments with fiscal agent (Note 3)	14,420,513	14,420,703
Deposits (Note 3)	6,157,601	7,593,487
Advance to the City of Santa Clara	16,437	30,811
Total Other Noncurrent Assets	55,176,314	61,345,859
Total Noncurrent Assets	614,809,740	593,175,847
Total Assets	920,532,430	913,628,572
DEFERRED OUTFLOWS OF RESOURCES		
Accumulated decrease in fair value of hedging instruments (Note 5F)	9,234,917	10,225,092
Deferred outflow on refunding of debts	6,704,712	7,239,973
Deferred outflows on pension related items (Note7)	5,335,643	-
Total Deferred Outflows of Resources	21,275,272	17,465,065

See accompanying notes to financial statements

CITY OF SANTA CLARA ELECTRIC UTILITY ENTERPRISE FUND
(SILICON VALLEY POWER)
STATEMENTS OF NET POSITION
June 30, 2015 and 2014

LIABILITIES	2015	2014
Current Liabilities:		
Accrued liabilities	28,054,585	23,572,143
Interest payable	2,826,132	2,914,191
Accrued compensated absences	362,159	437,872
Unearned Revenue	854,187	833,841
Current portion of long-term debt (Note 5)	7,280,000	6,490,000
Current portion derivative financial instruments (Note 5F)	68,400	577,814
Total Current Liabilities	39,445,463	34,825,861
Noncurrent Liabilities:		
Long-term derivative financial instruments (Note 5F)	9,166,517	9,647,278
Long-term portion accrued compensated absences	2,966,506	2,481,276
Net pension liability (Note 7)	69,068,338	-
Long-term debt (Note 5)	219,548,285	220,672,726
Total Noncurrent Liabilities	300,749,646	232,801,280
Total Liabilities	340,195,109	267,627,141
DEFERRED INFLOWS OF RESOURCES		
Accumulated increase in fair value of hedging instruments (Note 5F)	666,648	-
Deferred inflow on refunding of debts	524,940	565,320
Deferred inflows pension related items (Note 7)	9,837,338	-
Total Deferred Inflows of Resources	11,028,926	565,320
NET POSITION		
Net investment in capital assets	356,094,892	334,203,807
Unrestricted net position	234,488,775	328,697,369
Total Net Position	$ 590,583,667	$ 662,901,176

See accompanying notes to financial statements

CITY OF SANTA CLARA ELECTRIC UTILITY ENTERPRISE FUND
(SILICON VALLEY POWER)
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the years ended June 30, 2015 and 2014

	2015	2014
Operating Revenues:		
Residential sales	$ 27,138,612	$ 25,653,078
Commercial sales	13,783,286	13,769,571
Industrial sales	277,079,287	267,168,684
Other operating revenues	14,936,437	2,577,835
Total Operating Revenues	332,937,622	309,169,168
Operating Expenses:		
Operations	64,317,852	58,545,982
Maintenance	12,232,136	11,752,656
Purchased power	234,022,872	229,689,839
Amortization	139,366	168,425
Depreciation	20,023,306	19,559,451
Total Operating Expenses	330,735,532	319,716,353
Operating Income	2,202,090	(10,547,185)
Nonoperating Revenues (Expenses):		
Interest revenue	1,623,008	1,675,741
Net changes in the fair value of investments	420,573	1,914,604
Interest expense	(9,094,230)	(8,604,831)
Renewable energy credits	2,128,628	5,448,910
Wholesale resources sales (Note 8)	27,300,976	28,621,758
Wholesale resources purchases (Note 8)	(32,635,438)	(28,871,121)
Equity in income (losses) of joint ventures	(4,719,095)	4,214,516
Rents and royalties	3,455,122	2,712,453
Mandated program receipts and other revenues	16,035,553	18,327,017
Gain on retirement of assets	63,905	-
Mandated program disbursements and other expenses	(4,765,651)	(5,556,334)
Total Nonoperating Revenues, net	(186,649)	19,882,713
Income Before Transfers	2,015,441	9,335,528
Transfers to the City of Santa Clara	(549,651)	(384,816)
Net Income	1,465,790	8,950,712
Net Position, Beginning of Year, as Adjusted (Note 2R)	589,117,877	653,950,464
Net Position, End of Year	$ 590,583,667	$ 662,901,176

See accompanying notes to financial statements

CITY OF SANTA CLARA ELECTRIC UTILITY ENTERPRISE FUND
(SILICON VALLEY POWER)
STATEMENTS OF CASH FLOWS
For the years ended June 30, 2015 and 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 331,209,832	$ 309,472,428
Payments to suppliers	(281,899,243)	(272,787,831)
Payments to employees for salaries and benefits	(26,516,166)	(23,727,202)
Rents and royalties received	3,496,887	3,420,000
Other receipts	11,221,281	12,917,584
Net Cash from Operating Activities	37,512,591	29,294,979
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Wholesale resources sales	27,300,976	28,621,758
Wholesale resources purchases	(32,635,438)	(28,871,121)
Renewable energy credits	2,128,628	5,448,910
Increase (decrease) in due from other funds	447,196	(174,912)
Wholesale trading escrow	1,335,886	(190,559)
Transfers (out)	(549,651)	(384,816)
Cash Flows from Noncapital Financing Activities	(1,972,403)	4,449,260
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets, net	(44,066,254)	(19,926,645)
Proceeds from retirement of assets	63,905	-
Proceeds from debt issuance	6,000,000	24,435,000
Principal payments on debt	(6,485,000)	(3,550,000)
Interest paid on debt	(8,492,033)	(7,896,328)
Cash Flows from Capital and Related Financing Activities	(52,979,382)	(6,937,973)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends	1,790,916	2,400,280
Net increase in the fair value of investments	420,573	1,914,604
Payments made by fiscal agent	12,204,910	8,597,404
Deposits made with fiscal agent	(13,198,088)	(12,982,050)
Cash Flows from Investing Activities	1,218,311	(69,762)
Net Increase (Decrease) in Cash and Cash Equivalents	(16,220,883)	26,736,504
Cash and cash equivalent at Beginning of Period	254,864,491	228,127,987
Cash and cash equivalent at End of Period	$ 238,643,608	$ 254,864,491

See accompanying notes to financial statements

CITY OF SANTA CLARA ELECTRIC UTILITY ENTERPRISE FUND
(SILICON VALLEY POWER)
STATEMENTS OF CASH FLOWS
For the years ended June 30, 2015 and 2014

	2015	2014
Reconciliation of Operating Gain(Loss) to Net Cash Provided (Used) by		
Operating activities:		
Operating income	$ 2,202,090	$ (10,547,185)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
(Decrease) Increase in due to retirement system	(213,266)	-
Amortization	139,366	168,425
Depreciation	20,023,306	19,559,451
Change in assets and liabilities:		
Receivable, net	(1,279,601)	2,135,483
Inventory	808,673	17,219
Accrued liabilities	677,136	2,231,649
Compensated absences	409,517	(72,283)
Unearned revenues	20,346	319,084
Other receipts	19,490,675	21,039,470
Other expenses	(4,765,651)	(5,556,334)
Net Cash Provided by Operating Activities	$ 37,512,591	$ 29,294,979
NONCASH TRANSACTIONS:		
Joint Ventures		
Nonoperating Income (Expense)	$ (4,719,095)	$ 4,214,516

See accompanying notes to financial statements

NOTE 1 – DEFINITION OF THE REPORTING ENTITY

The City of Santa Clara (the City), California's Electric Utility Enterprise Fund, which began operating as Silicon Valley Power (SVP) in 1999, commenced operations over 100 years ago in 1896. Originally, SVP constructed a lighting plant consisting of forty-six 2000 candlepower direct current lamps and a dynamo (a type of electric generator) which entered into service in October 1896. In late 1903, SVP invested $5,000 to convert the system to alternating current and abandoned the small generating plant. Wholesale power was purchased from United Gas and Electric Company of San Jose.

Between 1903 and 1965, SVP purchased all of its electric power requirements from investor-owned utilities. In 1965, it received an allocation of power from the Federal Central Valley Project and began to diversify its resources. SVP became a charter member of the Northern California Power Agency (NCPA) in June 1968. Throughout the 1970's, SVP and NCPA worked on behalf of all municipal electric utilities in Northern California to gain access to wholesale transmission markets and to jointly develop cost-effective electric generation resources.

In 1980, SVP became a generating utility for the first time in 73 years with the start of operations of the 6-Megawatt Cogen No. 1 power plant. In 1983, the 110 Megawatt NCPA Geothermal Project, the first municipally owned and operated geothermal power plant in the United States, entered service with SVP as lead partner holding a 55% participation share. Subsequently, SVP participated in further jointly owned power generation projects including hydroelectric, natural gas and coal fired generation. In 2005, SVP placed the 147 Megawatt Don Von Raesfeld Power Plant into service.

Today, SVP has grown to approximately 7,497 streetlights and serves approximately 53,742 electric customers. As SVP looks to the future, it continues to be responsive to the electric market development by increasing its renewable power resources, reducing its greenhouse gas (GHG) footprint, and working with its customers to enhance the value they receive from municipal ownership of their electric utility.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

SVP's Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Government Accounting Standards Board (GASB) is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the United States of America. The electric enterprise fund is included in the City's Comprehensive Annual Financial Report, and

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNING POLICIES (continued)

therefore, these financial statements do not purport to represent the financial position and changes in financial position of the City.

B. Basis of Accounting

SVP reports its activities as a proprietary fund type (Enterprise Fund) which is maintained on the accrual basis of accounting wherein revenues are recognized in the accounting period in which they are earned regardless of whether they are received, and expenses are recognized in the period in which the related liabilities are incurred. Certain indirect costs are included in program expenses reported for individual functions and activities.

During the year ended June 30, 2015, SVP implemented the following GASB Statements:

The GASB issued Statement No. 68 "Accounting and Financial Reporting For Pension Plans-An Amendment of GASB Statement No. 27." which will revise and establish new financial reporting requirements for most governments that provide their employees with pension benefits. This statement becomes effective for periods beginning after June 15, 2014. This standard was adopted for fiscal year ended June 30, 2015. Please refer to the financial statements and Note 7 for details concerning the fiscal materiality of this pronouncement.

The GASB issued Statement No. 69 "Government Combinations and Disposals of Government Operations." This statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. This statement becomes effective for periods beginning after December 15, 2013. This standard was adopted for fiscal year ended June 30, 2015. The adoption of this standard does not have an impact to the City's financial statements.

The GASB issued Statement No. 71 "Pension Transition for Contributions Made Subsequent to the Measurement Date-An Amendment of GASB Statement No. 68." The objective of this statement is to address an issue regarding application of the transition provisions of Statement No. 68. This statement becomes effective for periods beginning after June 15, 2014. This standard was adopted for fiscal year ended June 30, 2015. Please refer to the financial statements and Note 7 for details concerning the fiscal materiality of this pronouncement.

SVP is analyzing the effects of the following pronouncements and plans to adopt them by the effective dates:

The GASB issued Statement No. 72 *"Fair Value Measurement and Application."* The objective of this statement is to address accounting and financial reporting issues related to fair value measurements. This statement becomes effective for periods beginning after June 15, 2015. SVP is currently evaluating the impact on the financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNING POLICIES (continued)

The GASB issued Statement No. 73 *"Accounting and Financial Reporting for Pensions and Related assets that Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68."* The objective of this statement is to address accounting and financial reporting issues related to pensions. This statement becomes effective for periods beginning after June 15, 2015. SVP is currently evaluating the impact on the financial statements.

The GASB issued Statement No. 74 *"Financial Reporting for Postemployments Benefits Plans Other Than Pension Plans."* The objective of this statement is to address the financial reports of defined benefits OPEB plans that are administered through trusts that meet specified criteria. This statement becomes effective for periods beginning after June 15, 2016. SVP is currently evaluating the impact on the financial statements.

The GASB issued Statement No. 75 *"Accounting and Financial Reporting for Postemployments Benefits Plans Other Than Pension Plans."* The objective of this statement is to addresses reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. This statement becomes effective for periods beginning after June 15, 2017. SVP is currently evaluating the impact on the financial statements.

The GASB issued Statement No. 76 *"The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments."* The objective of this statement is to modify the hierarchy of authoritative standards for accounting and reporting on governmental entities. This statement becomes effective for periods beginning after June 15, 2015. SVP is currently evaluating the impact on the financial statements.

C. Measurement Focus

Enterprise funds are accounted for on a cost of services or economic resources measurement focus, which means that all liabilities associated with the activity are included on their Statement of Net Position. Enterprise fund type operating statements present increases (revenues) and decreases (expenses) in total net position. Reported net position is segregated into three categories – Net investment in capital assets, restricted and unrestricted.

D. Cash and Investments

SVP's cash and investments pool is maintained by the City except for fiscal agent cash and investments.

While maintaining safety and liquidity, the City maximizes investment return by pooling its available cash for investment purposes. Unless there are specific legal or contractual

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNING POLICIES (continued)

requirements to do otherwise, interest earnings are apportioned among funds according to average monthly cash and investment balances. It is generally the City's intention to hold investments until maturity. City investments are stated at fair value (see Note 3).

Cash and cash equivalents for purposes of the statement of cash flows include pooled cash and investments and cash designated for construction. Transactions with City-wide cash management pools are similar to those with external investment pools; therefore, since pooled cash and investments have the same characteristics as demand deposits in that the City's individual funds and component units may withdraw additional monies at any time without prior notice or penalty, pooled cash and investments are considered essentially demand deposit accounts.

Cash and investments with fiscal agent, a bond reserve investment pool, and amounts classified as deposits are not considered cash and cash equivalents.

E. Due from City of Santa Clara

During the course of operations, transactions occur between SVP and the City for goods provided or services rendered. The related receivables, net, are classified as "Due from the City of Santa Clara" on the accompanying statement of net position.

F. Inventory of Materials and Supplies

Inventory of materials and supplies is accounted for using the consumption method and is stated at average cost. Inventory consists of expendable supplies held for consumption by the electric utility.

G. Capital Assets

All capital assets with a value of $5,000 or more with useful lives exceeding two years are capitalized. These assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair value on the date contributed. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets (buildings and improvements: 20 to 50 years; and equipment: 3 to 25 years) and is charged as an expense against operations. Accumulated depreciation is reported on the statement of net position.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNING POLICIES (continued)

Capital assets and the related obligations under lease/purchase agreements are capitalized and accounted for in accordance with Accounting Standards Codification (ASC) Topic 840. Interest is capitalized on construction in progress in accordance with ASC Topic 835, Capitalization of Interest Cost in Situations Involving Certain Tax-Exempt Borrowings, and Certain Gifts and Grants. Accordingly, interest capitalized is the total interest cost for the date of the borrowings net of any interest earned on temporary investments of the borrowed proceeds until the specified asset is ready for its intended use. There was no interest capitalized for the fiscal year ended June 30, 2015.

H. Joint Ventures

SVP participates in several joint ventures, and in accordance with GASB Statement No. 14, The Financial Reporting Entity, investments in these joint ventures are accounted for using the equity method, when appropriate. If SVP's equity in net losses of a joint venture exceeds its investments, use of the equity method is suspended except to the extent that SVP is obligated to provide further support or has guaranteed obligations of the joint venture.

SVP advances funds to certain of its joint ventures in the form of refundable advances, project advances, and operating and maintenance advances. Refundable advances accrue interest at rates stated in the related agreements. Operating, maintenance, and project advances are charged to operations when incurred.

Capitalized project costs are charged to operations in the event that a project is determined to be not economically feasible.

I. Compensated Absences

Vested or accumulated vacation leave and benefits are recorded as an expense and liability as the benefits accrue to the employees. Vacation pay accruals generally do not exceed the amount earned for one year, however, an employee may accumulate vacation pay earned, but not for more than two years.

In accordance with the provisions of GASB Statement No. 16, Accounting for Compensated Absences, a liability for sick leave and benefits is accrued using the vesting method. The vesting method provides that a governmental entity estimate its accrued sick leave liability based on the sick leave accumulated at the statement of net position date by those employees who currently are eligible to receive termination payments as well as other employees who are expected to become eligible in the future to receive such payments. Estimated sick leave payments are recorded as an expense and liability by SVP.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNING POLICIES (continued)

J. Risk Management

SVP is covered under the City's self-insurance programs via Internal Service Funds. There are no significant reductions in insurance coverage from the prior year by major categories of risk and the amount of settlements did not exceed insurance coverage for the past three fiscal years. Additional information with respect to the City's self-insurance programs can be found in the City's Comprehensive Annual Financial Report (CAFR).

K. Electric Power Purchased

SVP purchases power from various suppliers and agencies (including joint powers agencies) for resale to its customers (see Note 9). SVP also engages in numerous wholesale power transactions with the objective of reducing its overall cost of purchased power. Gross wholesale power sales and wholesale power purchases are recorded as nonoperating revenue and expense, respectively (see Note 8).

L. Bond Discounts/Issuance Costs

Bond discounts are presented as a reduction of the face amount of bonds payable, whereas issuance costs are recognized in the current period.

M. Revenue Recognition

Operating revenues are recognized based on cycle billings periodically rendered to customers. Operating revenues for services provided, but not billed at the end of the fiscal year, are recognized and accrued based on estimated consumption. Operating revenues primarily include the sales of electric power to residential, commercial, industrial, and municipal customers.

Non-operating revenues primarily represent wholesale resources sales, interest income, public benefit charge revenues, grants, rents, and other non-recurring miscellaneous income.

N. Taxes on Income

As an agency of the City, SVP falls under the review of the Internal Revenue Code Section 115 and corresponding California Revenue and Taxation Code provisions. As such, it is not subject to federal income or state franchise taxes.

O. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources,

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNING POLICIES (continued)

represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

P. Net Position and Fund Equity

SVP may fund certain programs with a combination of restricted and unrestricted net position. The policy is to first apply restricted net position followed by unrestricted net position if necessary.

Q. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

R. Prior Period Adjustments

The implementation of GASB Statements No. 68 and No. 71 required SVP to make prior period adjustments. As a result, the beginning net position of SVP on July 1, 2014 was reduced by $73,783,299. See Note 7 for additional information.

Financial information for the fiscal year ended June 30, 2014, was not adjusted because not all of the information was available to adjust the prior year amount.

NOTE 3 – CASH AND INVESTMENTS

SVP's cash and investments pool is maintained by the City except for fiscal agent cash and investments.

A. Investments Authorized by the California Government Code and the City's Investment Policy

The City's Investment Policy and the California Government Code allow the City to invest in certain types of investments, provided the credit ratings of the issuers are acceptable to the City. The table below also identifies certain provisions of the City's Investment Policy and the California Government Code that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage or Portfolio	Maximum Investment In One Issuer
U.S. Treasury Obligations	5 years	Top three ratings categories	None	None
U.S. Agency Securities (1)	5 years	Top three ratings categories	None	None
Negotiable Certificates of Deposit	5 years	N/A	30%	None
Bankers Acceptances	180 days	N/A	40%	30%
Commercial Paper	270 days	A1 / P1	25%	10%
California Local Agency Investment Fund	N/A	N/A	None	$50M Per A/C
Repurchase Agreements	1 year	N/A	None	None
Reverse Repurchase Agreements (requires City Council approval)	92 days	N/A	None	None
Tax Exempt Municipal Bonds (for yield restriction purposes)	5 years	N/A	None	None
Medium Term Corporate Notes	5 years	Top three ratings categories	15%	None
Mutual Funds	N/A	Top rating category	20%	10%
Investment Pools	N/A	Top rating category	20%	10%

(1) Securities issued by the Federal Farm Credit Bank (FFCB), the Federal Home Loan Bank (FHLB), the Federal National Mortgage Association (FNMA), and the Federal Home Loan Mortgage Corporation (FHLMC)

NOTE 3 – CASH AND INVESTMENTS (continued)

B. Investments Authorized by Debt Agreements

The City invests bond proceeds restricted for construction in instruments that are stated in the Investment Policy and in various return-guaranteed investment agreements. These investments are invested in accordance with bond indentures and the maturities of each investment should not exceed the final maturity of each bond. Bond proceed investments are reported monthly to the City Council.

SVP also maintains required amounts of cash and investments with trustees or fiscal agents under the terms of certain debt issues. These funds are unexpended bond proceeds or are pledged reserves to be used if the City fails to meet its obligations under these debt issues. The California Government Code 53601 (L) allows these funds to be invested in accordance with the statutory provisions governing the issuance of those bonds, indebtedness, other agreements, or certificates of participation in accordance with the ordinance, resolution, indenture, or agreement of the local agency providing for the issuance.

C. Credit and Interest Rate Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligations to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

Interest rate risk is the risk that changes in market interest rate will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment is the greater the sensitivity of its fair value to changes in market interest rates to be.

Information about the sensitivity of the fair values of SVP's investments to market interest rate fluctuations is provided by the following table that shows the distribution to SVP's investment by maturity.

NOTE 3 – CASH AND INVESTMENTS (continued)

	Credit Rating	Carrying Amount	Maturity Date
Investment held by fiscal agent:			
Deposits held by Fiscal Agent		$ 120,363	
Mutual fund - Federated Prime	Aaam	8,279,291	12 months or less
Mutual fund - Dreyfus	Aaam	14,890,097	12 months or less
Total Investment held by fiscal agent		23,289,751	
Investments not rated:			
Pooled Cash and Investments		238,643,608	12 months or less
Deposits		6,157,601	12 months or less
Total Cash and Investments		$ 268,090,960	

The City is a participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The City reports its investment in LAIF at the fair value amount provided by LAIF, which is the same as the value of the pool share. The balance is available for withdrawal on demand, and is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, floating rate securities issued by federal agencies, government-sponsored enterprises, United States Treasury Notes and Bills, and corporations. See City's Comprehensive Annual Financial Report Note 8 to the financial statements for additional detail on fiscal year 2014-15 investment portfolio.

Mutual funds are available for withdrawal on demand.

D. Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the City will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Under California Government Code Section 53651, depending on specific types of eligible securities, a bank must deposit eligible securities posted as collateral with its Agent having a fair value of 105% to 150% of the City's cash on deposit. All of the City's deposits are either insured by the Federal Depository Insurance Corporation (FDIC) or collateralized with pledged securities held in the trust department of the financial institutions.

NOTE 3 – CASH AND INVESTMENTS (continued)

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, the City will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The City's Investment Policy limits its exposure to custodial credit risk by requiring that all security transactions entered into by the City, including collateral for repurchase agreements, be conducted on a delivery-versus-payment basis. Securities are to be held by a third party custodian.

NOTE 4 – CAPITAL ASSETS

A. Capital Assets Summary

	Balance June 30, 2014	Additions	Retirements	Transfers	Balance June 30, 2015
Non Depreciable Assets:					
Land	$ 14,379,593	$ 8,500,491	$ (7,850)	$ -	$ 22,872,234
Construction In Progress	27,066,703	39,223,961	-	(25,066,054)	41,224,610
Total Non Depreciable Assets	41,446,296	47,724,452	(7,850)	(25,066,054)	64,096,844
Capital assets being depreciated:					
Buildings and Improvements	837,264,421	-	-	24,689,381	861,953,802
Machinery & Equipment	10,603,625	112,887	(676,918)	376,673	10,416,267
Total capital assets being depreciated	847,868,046	112,887	(676,918)	25,066,054	872,370,069
Less accumulated depreciation for:					
Buildings and Improvements	(349,420,749)	(19,177,680)	674,173	-	(367,924,256)
Machinery & Equipment	(8,063,605)	(845,626)		-	(8,909,231)
Total accumulated depreciation	(357,484,354)	(20,023,306)	674,173	-	(376,833,487)
Net Depreciable Assets	490,383,692	(19,910,419)	(2,745)	25,066,054	495,536,582
Enterprise Activity Capital Assets, Net	$ 531,829,988	$ 27,814,033	$ (10,595)	$ -	$ 559,633,426

B. Construction in Progress

Construction in progress as of June 30, 2015 consisted of $41,224,610 in Electric Projects.

NOTE 5 – LONG-TERM DEBT AND DERIVATIVE INSTRUMENTS

Changes in long-term debt for the year ended June 30, 2015, consisted of the following:

Type of Indebtedness Rate, Issue Date and Maturity	Outstanding as of June 30, 2014	Debt Retired / Defeased	Additions and Amortization of Discounts	Outstanding as of June 30, 2015	Current Portion
2008 Series B Subordinate Revenue Bonds, Adjustable rate, 05/29/08-07/01/27	$ 75,640,000	$ 3,760,000	$ -	$ 71,880,000	$ 3,975,000
2011 Series A Refunding Revenue Bonds, 5%-6% 03/22/11-07/01/32	54,830,000	-	-	54,830,000	-
2013 Series A Refunding Revenue Bonds 3%-5%, 04/24/13-07/01/28	64,380,000	2,725,000	-	61,655,000	3,305,000
Unamortized Discount/Premium	7,877,726	-	567,577	7,310,149	-
Subtotal Electric Utility Revenue Bonds	202,727,726	6,485,000	567,577	195,675,149	7,280,000
Bank of America Loan Agreement 2.67%, 06/16/14-07/01/2024	24,435,000	-	6,718,136	31,153,136	-
Total Electric Utility Activities - Bonds and Loan Payable	$ 227,162,726	$ 6,485,000	$ 7,285,713	$ 226,828,285	$ 7,280,000

A. Electric Revenue Refunding Bonds, 2008 Series B

On May 29, 2008, SVP issued $86.6 million of Variable Rate Demand Subordinated Electric Revenue Bonds, Series 2008B (Electric 2008B Bonds) to refinance $80.53 million of Electric 1998A Bonds on July 1, 2008. The Electric 2008B Bonds mature annually beginning July 1, 2009 through July 1, 2027. The Electric 2008B Bonds are variable-rate, multi-modal bonds that were initially issued in the weekly mode. Payment of principal and interest on the Electric 2008B Bonds was originally made from proceeds of draws on a Letter of Credit originally provided by Dexia Credit Local. On May 11, 2011, the Letter of Credit provided by Dexia was replaced by a Letter of Credit provided by Bank of America, N.A. In connection therewith, the name of the bonds was changed from “Subordinated Electric Revenue Refunding Bonds” to “Electric Revenue Refunding Bonds” to reflect that all senior electric revenue bonds of Silicon Valley Power had been retired. On November 1, 2012, the Letter of Credit provided by Bank of America, N.A. was replaced by a Letter of Credit provided by The Bank of Tokyo-Mitsubishi UFJ, Ltd. The Electric 2008B Bonds are in a weekly mode and debt service is secured by a pledge of net revenues of the Electric Utility Enterprise Fund.

NOTE 5 – LONG-TERM DEBT AND DERIVATIVE INSTRUMENTS (continued)

B. Electric Revenue Refunding Bonds, 2011 Series A

On March 22, 2011, SVP issued $54.83 million of Electric Revenue Refunding Bonds, Series 2011A (Electric 2011A Bonds) to refinance $49.66 million outstanding principal amount of Electric 2008A Bonds. The Electric 2011A Bonds mature annually beginning on July 1, 2028 through July 1, 2032 and bear coupon rates ranging from 5.00% to 6.00%. Debt service on the Electric 2011A Bonds is secured by a pledge of net revenues of the Electric Utility Enterprise Fund.

C. Electric Revenue Refunding Bonds, 2013 Series A

On April 24, 2013, SVP issued $64.38 million of the Electric Revenue Bonds, Series 2013A (Electric 2013A Bonds), to provide funds, together with other available moneys, to refinance outstanding Electric 2003A Bonds. The Electric 2013A Bonds mature annually beginning on July 1, 2014 through July 1, 2028 and bear coupon rates ranging from 3.00% to 5.00%. Debt service on the Electric 2013A Bonds is secured by a pledge of net revenues of the Electric Utility Enterprise Fund.

D. Bank of America Loan Agreement, Series 2014

On June 16, 2014, Silicon Valley Power (SVP) entered into a Tax-Exempt Multiple Draw Term Loan with the Bank of America Preferred Funding Corporation (the "Electric 2014 Loan Agreement") to fund the phase-shifting transformer project and the acquisition of property for future utility use. The loan is a tax-exempt multiple draw term loan that allows SVP to draw funds as needed. The first draw occurred on June 16, 2014 for approximately $24.4 million, which includes $15.8 million for the Phase Shifting Transformer engineering, equipment purchase, and initial construction activities and $8.5 million for the land purchase. The second draw occurred on April 15, 2015 for $6.0 million to cover the construction and commissioning of the Phase Shifting Transformer. The loan terms allow the City to capitalize interest for up to two years in amount of $1,134,031 with the initial loan payment due July 1, 2016. The loan carries an interest rate of 2.67% and the final payment is due on July 1, 2024. Debt service on the Electric 2014 Loan Agreement is secured by a pledge of net revenues of the Electric Utility Enterprise Fund on a basis subordinate to the outstanding Electric Revenue Bonds.

E. Pledges of Future Electric Revenues

The pledge of future Electric Fund revenues ends upon repayment of the $219.9 million in remaining debt service on the bonds which is scheduled to occur in fiscal year 2032-33. For fiscal year 2014-15, Electric Fund revenues including operating revenues and non-operating interest earnings amounted to $332.1 million and operating costs including operating expenses, but not interest, depreciation or amortizations amounted to $297.8 million. Net revenues

NOTE 5 – LONG-TERM DEBT AND DERIVATIVE INSTRUMENTS (continued)

available for debt service amounted to $26.3 million which represented coverage ratio of 2.30 over the $14.9 million in debt service.

F. Derivative Instruments

In fiscal year 2009-10, SVP implemented GASB Statement No. 53, which addresses recognition, measurement and disclosures related to derivative instruments to determine whether they meet the definition of derivative instruments, and if so, whether they effectively hedge the expected cash flows associated with the interest rate and energy exposures. Under hedge accounting, the increase (decrease) in the fair value of a hedge is reported as a deferred cash flow hedge on the statement of net position. For the reporting period, all of SVP's derivatives meet the hedge effectiveness tests under GASB Statement No. 53.

Interest Rate Swap Agreements-2008 Series B Bonds

Pursuant to the Interest Rate Hedging Policy adopted by the City Council in 2006, as a means to lower borrowing costs, the City has a variable-to-fixed interest rate Swap Agreement with JPMorgan Chase related to the Electric 2008 Series B bonds. Under the Swap Agreement, Santa Clara is obligated to make payments to the Swap Provider calculated on the basis of a fixed rate of 3.47% and receives from the Swap Provider payments equal to 65% of the one month London InterBank Offering Rate (LIBOR). Santa Clara's obligation to make any net regularly scheduled payments due to the Swap Provider under the Swap Agreement is payable from net revenues of the electric system on a parity with its other outstanding electric bonds. The effective date of the swap was May 29, 2008 and the scheduled termination date is July 1, 2027.

	Notional Amount (000's)	City Pays Fixed Rate to Counterparty	City Receives Floating Rate From Counterparty 6/30/2015	City Pays Variable Rate on Bond 6/30/2015
2008 Series B	$68,920	3.47%	Weekly Mode - 65% of LIBOR=0.12051%	Weekly Mode - SIFMA=0.07%

The swap is classified as a debt instrument and had negative fair values of $9,166,517 as of June 30, 2015, and $9,647,278 as of June 30, 2014, resulting in a deferred outflow change of $480,761 from June 30, 2014. The swap is classified as a deferred outflow of resources and derivative financial instrument on the statement of net position. The fair values were based on mid-market levels as of the close of business date on June 30, 2015 and June 30, 2014, respectively. The values were estimated from proprietary models based upon well recognized financial principles and reasonable estimates about relevant future market conditions.

NOTE 5 – LONG-TERM DEBT AND DERIVATIVE INSTRUMENTS (continued)

Rollover Risk

SVP is exposed to rollover risk on hedging derivative instruments that are hedges of debt because SVP can terminate the interest rate swap prior to the maturity of the bond. The risk if the swap is terminated will be to re-expose SVP to the risks being hedged by the interest rate swap. SVP currently has no plans to terminate the swap prior to maturity in 2027.

Interest Rate/Basis Risk

SVP is exposed to interest rate risk on its swap agreement. SVP's net payment on the swap increases as the LIBOR swap index decreases. With respect to basis risk, under the swap, the City receives 65% of LIBOR and pays the Securities Industry and Financial Markets Association (SIFMA) rate to bondholders of the City's 2008B bonds. The basis risk is the difference between the two rates. As of June 30, 2015, 65% of weighted average on weekly mode LIBOR was 0.12051% and the SIFMA rate was 0.07%. Using rates as of June 30, 2015, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for their term, were as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

Year Ending	Variable-Rate Bond		Interest Rate	
June 30	Principal	Interest	Swaps, Net	Total
2016	$ 3,975,000	$ 50,316	$ 2,407,613	$ 6,432,929
2017	4,200,000	47,534	2,274,471	6,522,005
2018	4,440,000	44,594	2,133,793	6,618,387
2019	4,685,000	41,486	1,985,075	6,711,561
2020	4,945,000	38,206	1,828,152	6,811,358
2021-2025	29,025,000	135,198	6,469,205	35,629,403
2026-2028	20,610,000	29,243	1,399,249	22,038,492
	$ 71,880,000	$ 386,577	$ 18,497,558	$ 90,764,135

Compliance

Various debt agreements governing the Enterprise Funds' revenue bonds contain a number of covenants, including those that require the City to maintain and preserve the respective enterprise in good repair and working order, to maintain certain levels of insurance and to fix and collect rates, fees and charges so as to maintain certain debt coverage ratios. The City is in compliance with these specific covenants and all other material covenants governing the particular revenue bond issues. No event of default as defined in the bond indentures has occurred or is occurring.

NOTE 5 – LONG-TERM DEBT AND DERIVATIVE INSTRUMENTS (continued)

Notional Amounts and Fair Values

SVP maintains a Market Risk Management Policy, which among other things, sets forth the guidelines for the purchase and sale of certain financial instruments defined as hedge instruments in support of market power purchase transactions. The primary goal of these guidelines is to provide a framework for the operation of an energy price hedging program to better manage SVP's risk exposure in order to stabilize pricing and costs for the benefit of SVP and its customers.

Consistent with hedge accounting treatment meeting effectiveness tests, changes in fair value are reported as deferred flows of resources on the statement of net position until the contract expiration that occurs in conjunction with the hedged expected energy purchase transaction. When hedging contracts expire, at the time the purchase transactions occur, the deferred balance is recorded as a component of Purchased Power. For energy derivatives, fair values are estimated by comparing contract prices to forward market prices quoted by third party market participants.

SVP had the following future derivative instruments outstanding at June 30, 2015 with Bache Commodities to hedge cash flows on CAISO NP15 power purchases:

Notional Amount (MWh)					Fair Value		Change in Fair Value	
Long	Short	Effective Date	Maturity Date	Average Price	Classification	Amount	Classification	Amount
52,000	-	Various	Jun-15	$36.80	Derivative Instrument	$ 92,560	Deferred inflow	$ 92,560
31,200	-	Various	Jul-15	43.17	Derivative Instrument	212,888	Deferred inflow	$ 212,888
52,000	-	Various	Aug-15	40.75	Derivative Instrument	317,200	Deferred inflow	$ 317,200
40,000		Various	Sep-15	42.40	Derivative Instrument	44,000	Deferred inflow	$ 44,000
30,400	-	Various	Jun-15	31.50	Derivative Instrument	(68,400)	Deferred outflow	$ (68,400)
						$ 598,248		$ 598,248

NOTE 5 – LONG-TERM DEBT AND DERIVATIVE INSTRUMENTS (continued)

Credit Risk

Credit risk is the risk of loss due to a counterparty defaulting on its obligations. SVP is exposed to credit risk if hedging instruments are in asset positions. As of June 30, 2015, SVP was exposed to credit risk because certain open derivative contracts were in asset positions. However, should interest rates change and the fair market value of the swap become negative; the City would not be exposed to credit risk in the amount of the fair market values. The swap and open contract counterparties were rated A and BBB-, respectively, by S&P at June 30, 2015.

SVP's policy for requiring collateral on hedging instruments varies based on individual contracts and counterparty credit ratings. Under the interest rate swap agreement, collateral is required based on the counterparty rating and dollar threshold on the mark-to-market value of the swap. Under the trading agreements with Merrill Lynch, Pierce, Fenner & Smith, Inc. and Bache Commodities, the trading accounts are prefunded by SVP. If the account value falls below zero, margin calls are invoked. At June 30, 2015 SVP had posted collateral of $4,032,508 on the interest rate swap and $2,125,093 was deposited with Merrill Lynch, Pierce, Fenner & Smith, Inc., CAISO and Bache Commodities for wholesale trading. At June 30, 2015, no margin calls were paid to Bache Commodities on the outstanding future derivative instruments.

It is also SVP's policy to negotiate netting arrangements whenever it has entered into more than one derivative instrument transaction with a counterparty. Under the terms of these arrangements, should one party become insolvent or otherwise default on its obligations, the non-defaulting party may accelerate and terminate all outstanding transactions and net their fair values so that a single amount will be owed by (or to) the non-defaulting party. At June 30, 2015 SVP had various derivative instrument purchase contracts with Bache Commodities.

Termination Risk

The swap may be terminated by the City at any time. If the swap is terminated, the City may be required to make a termination payment to the Swap Provider if the swap had a negative fair market value. The cost to terminate would be the fair value of the swap at the time of termination. Any such termination payment owed by Santa Clara would be payable from net revenues of the electric system subordinate to Santa Clara’s outstanding electric revenue bonds. If the swap had a positive fair market value, the Swap Provider would be required to make a termination payment to the City. Futures contracts are traded over the counter and have no termination risks.

Price Risk

With respect to price risk under these future contracts, SVP receives the CAISO NP15 average daily rate at settlement and pays the fixed contracted rate entered into on the trade date. SVP is

NOTE 5 – LONG-TERM DEBT AND DERIVATIVE INSTRUMENTS (continued)

exposed to risk because the commodity purchase price being hedged is different from the price on settlement.

G. Other

Various debt agreements governing SVP's revenue bonds contain a number of covenants including those that require SVP to maintain and preserve the enterprise in good repair and working order, to maintain certain levels of insurance, and to fix and collect rates, fees, and charges so as to maintain certain debt coverage ratios. SVP is in compliance with these specific covenants and all other material covenants governing the particular revenue bond issues. No event of default as defined in the bond indentures has occurred or was occurring as of the date of this report.

H. Repayment Requirements

As of June 30, 2015, the debt service requirements to maturity for SVP's long-term debt are as follows:

Year Ending	Long-term Debt Future Debt Service Requirements		
June 30	Principal (1)	Interest (2)	Total
2016	$ 7,280,000	$ 5,628,247	$ 12,908,247
2017	9,318,031	6,328,256	15,646,287
2018	11,416,000	6,134,411	17,550,411
2019	11,897,000	5,874,782	17,771,782
2020	12,440,000	5,586,274	18,026,274
2021-2025	71,068,000	23,173,059	94,241,059
2026-2030	58,225,000	15,774,102	73,999,102
2031-2033	38,290,000	3,218,456	41,508,456
	$ 219,934,031	$ 71,717,587	$ 291,651,618

(1) The second Bank of America, Series 2014 loan draw in the amount of $6,000,000 on April 15, 2015 and capitalized interest of $718,136 and $415,895 in 2014-15 and 2015-16 are included in the principal of future debt service requirements.

(2) Interest on the 2008 Series B Bonds is estimated using current rate at June 30, 2015.

NOTE 5 – LONG-TERM DEBT AND DERIVATIVE INSTRUMENTS (continued)

Reconciliation of Long-term Debt:

Principal Outstanding As Of June 30, 2015	$ 219,518,136
Unamortized Discount/Premium - Electric Revenue Bonds	7,310,149
Total Long-term Debt	$ 226,828,285

I. Defeasances

There is no defeased debt for the SVP as of June 30, 2015.

NOTE 6 – PARTICIPATION IN JOINT VENTURES

A. Investment in Joint Ventures

SVP (through the City) participates in significant joint ventures: Northern California Power Agency (NCPA), Transmission Agency of Northern California (TANC), M-S-R Public Power Agency (MSR PPA), M-S-R Energy Authority (MSR EA).

The separately issued financial statements of these joint ventures (as noted below) are available on request.

	Date of latest audited financial statement	Participant's address
NCPA	6/30/2014	651 Commerce Dr. Roseville, CA 95678
TANC	6/30/2014	P.O. Box 15129 Sacramento, CA 95851
MSR EA	12/31/2014	P.O. Box 4060 Modesto, CA 95352
MSR PPA	12/31/2014	P.O. Box 4060 Modesto, CA 95352

NOTE 6 – PARTICIPATION IN JOINT VENTURES (continued)

As described in paragraph (D) below, the carrying value of SVP's investment in MSR PPA is $0. SVP's financial statements reflect the following investments in joint ventures as of June 30, 2014:

	Participating percentage	Investment	Method of accounting
NCPA			
Geothermal	44.39%	$32,060,147	Equity
Hydroelectric	37.02%		
Combustion Turbine	41.67%		
Lodi Energy Center	25.75%		
TANC	21.02%	2,521,616	Equity
MSR EA	33.40%	-	Suspended
MSR PPA	35.00%	-	Suspended

B. Northern California Power Agency (NCPA)

NCPA was formed in 1968 as a joint powers agency in the State of California. Its membership consists of fourteen public agencies. NCPA is generally empowered to purchase, generate, transmit, distribute and sell electrical energy. Members participate in the projects of NCPA on an elective basis. Therefore, the participation percentage varies for each project in which it participates.

A Commission comprised of one representative from each joint venture member governs NCPA. The Commission is responsible for the general management of the affairs, property, and business of NCPA. Under the direction of the General Manager, the staff of NCPA is responsible for providing various administrative, operating and planning services for NCPA and its associated power corporations.

Project Financing and Construction

NCPA's project construction and development programs have been individually financed by project revenue bonds collateralized by NCPA's assignment of all payments, revenues and proceeds associated with its interest in each project. Each project participant has agreed to pay its proportionate share of debt service and other costs of the related project, notwithstanding the suspension, interruption, interference, reduction or curtailment of output from the project for any

NOTE 6 – PARTICIPATION IN JOINT VENTURES (continued)

reason. Certain of the revenue bonds are additionally supported by municipal bond insurance credit enhancements.

Hydroelectric Project

NCPA contracted to finance, manage, construct, and operate Hydroelectric Project Number One for the licensed owner, Calaveras County Water District (CCWD). In exchange, NCPA has the right to the electric output of the project for 50 years from February 1982. NCPA also has an option to purchase power from the project in excess of the CCWD's requirements for the subsequent 50 years, subject to regulatory approval.

Geothermal Project

NCPA owns Geothermal Plants completed in 1988, in the Sonoma/Lake County area of California. Santa Clara has 44% of the production of the plants. These plants have historically experienced greater than anticipated declines in steam production from the existing geothermal wells. Although initially operated as baseload generation projects at full capability (238MW), NCPA changed its steam field production from baseload to load-following and reduced average annual steam production. Along with other steam field operators in the area, the Agency began implementing various operating strategies to further reduce the rate of decline in steam production. The Agency has modified both steam turbine units and the associated steam collection system to enable generation with lower pressure steam at higher mass-flow rates to optimize the utilization of the available steam resource.

Based upon current operation protocols and forecasted operations, NCPA expects average annual generation and peak capacity to decrease further, reaching approximately 60 MWG by the year 2036.

Combustion Turbine Project No. 1

NCPA owns five dual (natural gas and fuel oil) combustion turbine units, each of which is nominally rated at 25 MW, which are collectively known as the Combustion Turbine Project No. 1. These units were completed in 1986 and are designed to provide peak power and reserve requirements and emergency support. Each purchaser is responsible under its power sales contract for paying entitlement share in Combustion Turbine Project No. 1 of all NCPA's costs of such project.

Lodi Energy Center

On May 24, 2010, Santa Clara entered into an agreement with NCPA for a 25.75% interest in the the Lodi Energy Center, a 280 MW combined cycle natural gas fired power plant, located in

NOTE 6 – PARTICIPATION IN JOINT VENTURES (continued)

Lodi, California. The project received approval from the California Energy Commission in April 2010 and was placed into operation in November 2012.

C. Transmission Agency of Northern California (TANC)

TANC was organized under the California Government Code pursuant to a joint powers agreement entered into by 15 Northern California utilities. The purpose of TANC is to provide electric transmission or other facilities for the use of its members through its authority to plan, acquire, construct, finance, operate and maintain facilities for electric power transmission. The joint powers agreement provides that the costs of TANC's activities can be financed or recovered through assessment of its members or from user charges through transmission contracts with its members. Each TANC member has agreed to pay a pro-rata share of the costs to operate TANC and for payment of debt service, and has the right to participate in future project agreements.

The joint powers agreement remains in effect until all debt obligations and interest thereon have been paid, unless otherwise extended by the members.

California-Oregon Transmission Project

TANC is a participant and also the Project Manager of the California-Oregon Transmission Project (Project), a 340 mile long, 500 kilovolt alternating current transmission project between Southern Oregon and Central California. As Project Manager, TANC is responsible for the overall direction and coordination of all Project operations and maintenance, additions and betterments, and for general and administrative support.

The Project was declared commercially operable on March 24, 1993, with a rated transfer capability of 1,600 megawatts and provides a third transmission path between the electric systems of the Pacific Northwest and those in California. The Project has successfully met and completed all major environmental requirements. As of June 30, 2014, the most recent data available, TANC's investment in the Project was $508.9 million, less accumulated depreciation and amortization of $226.6 million.

In connection with its participation in the Project, TANC has an entitlement balance of the Project's transfer capability of approximately 1,362 megawatts and is obligated to pay an average of approximately 80 percent of the operating costs associated with the Project. TANC incurred and initially capitalized all costs for project construction since they were expected to be recovered through reimbursement from Project participants and from the successful operations of the Project transmission lines. The Project agreement among the participating members provides that each member agrees to make payments, from its revenues, to TANC for project costs incurred and for payment of debt service.

NOTE 6 – PARTICIPATION IN JOINT VENTURES (continued)

Santa Clara has historically been obligated to pay 20.47% of TANC's COTP operating and maintenance expenses and 20.70% of TANC's COTP debt service and 22.16% of the Vernon acquisition debt. Santa Clara has also been entitled to 20.4745% of TANC's share of COTP transfer capability (approximately 278 MW net of third party layoffs of TANC) on an unconditional take-or-pay basis. Starting on July 1, 2014, Santa Clara laid-off 147 MWs of this entitlement to other TANC members under a 25 year agreement. During the term of this agreement the parties taking on the entitlement will pay all associated debt service, operations and maintenance costs, and all administrative and general costs. Santa Clara's portion of the operating and maintenance expenses and the COTP debt service is 10.003 %.

D. M-S-R Public Power Agency (MSR PPA)

MSR PPA is a joint power agency formed in 1980 by the Modesto Irrigation District, the City, and the City of Redding, California, to develop or acquire and manage electric power resources for the benefit of the members. The personnel of its members and contract professional staff perform the administrative and management functions of MSR PPA. The member's income and expenses sharing ratio is as follows: Modesto Irrigation District – 50 percent, City of Santa Clara – 35 percent, and City of Redding – 15 percent.

SVP's equity in MSR PPA's net losses exceeds its investments and, therefore, the equity method of accounting for the investment has been suspended. As of December 31, 2014, the date of the latest available audited financial statements, SVP's unrecognized share of member's deficit of MSR PPA was $24.6 million. Under the joint exercise of power agreement, which formed MSR PPA, SVP is responsible for funding up to 35 percent of MSR PPA's operating cost, to the extent such funding is necessary. During the year ended June 30, 2014, SVP made no contributions to fund its share of operating deficits. If there were such contributions, they would be included in the Electric Utility Enterprise Fund expenses.

MSR PPA's principal activity is a 28.8 percent ownership interest in a 507-megawatt unit of a coal-fired electricity generating plant located in New Mexico (San Juan Plant). The acquisition of such ownership interest was funded through the issuance of revenue bonds, secured by a pledge and assignment of the net electric revenues of MSR PPA and supported by take-or-pay commitments of the equity participants. MSR PPA is also a participant in the Southwest Transmission Project, a 500-kilovolt alternating current transmission project between Central Arizona and Southern California that provides a firm transmission path for the electric power from the San Juan Plant to the MSR PPA members. The Southwest Transmission Project was completed and placed in service in April 1996.

In accordance with an agreement with the Tucson Electric Power Company (TEP), MSR PPA has the right to certain levels of power transmission without charge and without transmission

NOTE 6 – PARTICIPATION IN JOINT VENTURES (continued)

losses between the San Juan Plant in New Mexico and Palo Verde, Arizona through 2025. These rights are being utilized in connection with the delivery of power from the San Juan Plant to the members or to third party purchasers.

On June 1, 2005, MSR PPA entered into a series of agreements with PPM Energy (as amended in October 2005 and restated effective February 1, 2006; PPM Energy is now Iberdrola Renewable Holdings, Inc.) to purchase wind power energy from Big Horn I with nominal installed capacity of approximately 199.5 MW and an expected annual capacity factor of about 35%, as firmed, shaped, and delivered to the California-Oregon Border for a twenty-year period. The deliveries for the wind power began in 2006. The participation in this project is as follows:

Modesto Irrigation District	12.5%
City of Santa Clara	52.5%
City of Redding	35.0%

M-S-R PPA San Juan

M-S-R PPA has negotiated with the other joint owners of San Juan Unit 4 and has developed a scenario wherein M-S-R PPA may divest itself of its Ownership Interest at or around the end of 2017. The proposed fleet of agreements required to implement the terms of the restructuring have been filed at the New Mexico PRC. On July 22, 2015, through Resolution 2015-02, the M-S-R PPA approved the San Juan Restructuring Agreements, made a determination that these agreements were exempt from CEQA review, approved the Restructuring Agreements and accepted the Consultant's Report finding that entering the Restructuring Agreements does not impair the ability of the Agency to comply with the Indenture.

M-S-R PPA Southwest Transmission Project

M-S-R PPA has also developed and issued a Request for Proposals for the Southwest Transmission Project. It received proposals from four qualified entities for purchase of the SWTP and concluded the proposal made by LADWP to acquire M-S-R PPA's interests in the SWTP through SCPPA for a sum of $60 million offered the greatest potential value to the Agency and its Members. LADWP proposed that the transaction be structured so that SCPPA will purchase the SWTP and LADWP, as the sole SCPPA participant in such project enter into a long-term Transmission Services Agreement to secure SCPPA's financing. LADWP's commitments will provide the security for Revenue Bonds to be sold by SCPPA to finance their purchase of the SWTP. The Closing of the sale under the PSA will be contingent on the execution of the TSA and the sale of the Bonds by SCPPA and is expected to occur sometime between December 2015 and the fourth quarter of 2015-16.

NOTE 6 – PARTICIPATION IN JOINT VENTURES (continued)

On December 9, 2009, MSR PPA entered into a series of agreements with Iberdrola Renewables Inc. to purchase additional wind power energy from the same site, called Big Horn II, with a nominal installed capacity of 50 MW and an expected capacity factor of about 35%, as firmed, shaped, and delivered to the California-Oregon Border (COB) for a twenty-year period. Deliveries of energy under this project began on November 1, 2010. The participation in this project is as follows: Modesto Irrigation District – 65%; City of Santa Clara – 35%.

E. M-S-R Energy Authority (M-S-R EA)

MSR EA is a joint power agency formed in 2008 by the Modesto Irrigation District, the City of Santa Clara, and the City of Redding, California, to develop or acquire and manage natural gas resources for the benefit of the members. The personnel of its members and contract professional staff perform the administrative and management functions of MSR EA. Each member's income and expense sharing ratio is as follows: Modesto Irrigation District – 33.3%; City of Santa Clara – 33.4%; and City of Redding – 33.3%.

The City's equity in MSR EA's net losses exceeds its investment and, therefore, the equity method of accounting for the investment has been suspended. As of December 31, 2013, the date of the latest available audited financial statements, the City's unrecognized share of member's deficit of MSR EA was $44.3 million. Under the joint exercise of power agreement, which formed MSR EA, the City is responsible for funding up to 33.4% of MSR EA's operating cost, to the extent such funding is necessary. During the year ended June 30, 2013, the City made no contributions to fund its share of operating deficits. If there were such contributions, they would be included in the Electric Utility Enterprise Fund expenses.

In 2009, the City, along with the Cities of Modesto and Redding participated in the M-S-R Energy Authority Gas Prepay Project. The Gas Prepay Project provides the City, through a Gas Supply Agreement with M-S-R EA dated September 10, 2009, a secure and long-term supply of natural gas of 7,500 MM Btu (Million British thermal unit) daily or 2,730,500 MM Btu annually through December 31, 2012, and 12,500 MM Btu daily, or 4,562,500 MM Btu annually thereafter until September 30, 2039. The agreement provides this supply at a discounted price below the spot market price (the Pacific Gas & Electric City gate index) over the next 30 years. As of December 31, 2013, bonds issued by MSR EA to finance the City's share of the Gas Prepay Project were outstanding in the principal amount of $500,200,000. These bonds were initially sold on August 27, 2009. Under the Gas Supply Agreement, MSR EA will bill the City for actual quantities of natural gas delivered each month on a "take-and-pay" basis. MSR EA has contracted with Citigroup Energy, Inc. ("CEI") to use the proceeds of the Gas Prepay bond issue to prepay CEI for natural gas. CEI has guaranteed repayment of the bonds, and responsibility for bond repayment is non-recourse to the City. Moreover, any default by the other Gas Prepay Project participants is also non-recourse to the City.

NOTE 6 – PARTICIPATION IN JOINT VENTURES (continued)

F. Contingent Liability

Under the terms of the various joint venture agreements, SVP is contingently liable for a portion of the long-term debt of the entities under take-or-pay agreements, letters of credit, guarantees or other similar agreements.

Based on the most recent audited financial statements of the individual joint ventures, SVP was contingently liable for long-term debt as of June 30, 2014 as follows:

Agreements	Total Debt	Silicon Valley Power's Debt Share	Silicon Valley Power's Contingent Liability
NCPA 06/30/14	$ 889,672,000	32.26%	$ 286,973,268
TANC 06/30/14	314,195,000	21.02%	66,043,789
MSR PPA 12/31/14	263,895,000	35.00%	92,363,250
MSR EA 12/31/14	901,620,000	55.48%	500,200,000
TOTAL	$ 2,369,382,000		$ 945,580,307

In addition, SVP would be, under certain conditions, liable to pay a portion of costs associated with the operations of the entities. Under certain circumstances, such as default or bankruptcy of the other participants, SVP may also be liable to pay a portion of the debt of these joint ventures on behalf of those participants and seek reimbursement from those participants.

Take-or-Pay commitments expire upon final maturity of outstanding debt for each project. Final fiscal year debt expirations as of June 30, 2014 are as follows:

Project	Debt Expiration	Entitlement Share %	Debt Service Share %
NCPA - Geothermal Project (NGP)	July-2024	44.3905%	44.3905%
NCPA - Hydroelectric Project (NHP)	July-2032	37.0200%	37.0200%
NCPA - Lodi Energy Center (NLEC)	June-2040	25.7500%	29.9159%
TANC - CA-OR Transmission Project (COTP)	May-2024	20.4745%	21.0217%
MSR PPA -San Juan Plant	July-2022	35.0000%	35.0000%

** The SVP's debt service share in NLEC on issue one is 29.9159%, on issue two is 0%.

NOTE 6 – PARTICIPATION IN JOINT VENTURES (continued)

A summary of SVP's "Take-or-Pay" contracts and related projects and its contingent liability for the debt service including principal and interest payments at June 30, 2014 is as follows:

Fiscal Year	NGP	NHP	NLEC	COTP	MSR PPA	Total
2015	$ 2,263,406	$ 14,575,614	$ 7,713,818	$ 8,888,585	$ 14,243,600	$ 47,685,023
2016	2,267,016	14,582,142	7,715,155	8,960,672	13,389,600	46,914,585
2017	2,267,879	14,600,914	7,715,876	8,167,346	13,038,900	45,790,915
2018	2,268,241	14,300,656	7,715,539	8,166,685	12,902,400	45,353,521
2019	2,270,099	14,302,720	7,714,299	8,166,204	12,687,500	45,140,822
2020-2024	10,725,654	71,758,482	38,574,715	39,044,070	47,050,500	207,153,421
2025-2029	1,625,891	46,585,821	38,598,712	-	-	86,810,424
2030-2034	-	33,017,819	38,621,287	-	-	71,639,106
2035-2039	-	-	38,615,696	-	-	38,615,696
2040-2041	-	-	14,804,749	-	-	14,804,749
Total	$ 23,688,186	$ 223,724,168	$ 207,789,846	$ 81,393,562	$ 113,312,500	$ 649,908,262

NOTE 7 – RETIREMENT PLAN – DEFINED BENEFIT PENSION PLAN

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Plans and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by the CalPERS Financial Office. For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

A. General Information about the Pension Plans

Plan Descriptions

All qualified regular and probationary employees are required to participate in the City's Miscellaneous Agent Multiple-Employer defined benefit plan administrated by the California Public Employees' Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the Plans are established by State statute and City resolution. CalPERS issues publicly available reports

NOTE 7 – RETIREMENT PLAN – DEFINED BENEFIT PENSION PLAN (continued)

that include a full description of the pension plans regarding benefit provisions, assumptions and membership information and can be found on the CalPERS website.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members, who must be public employees or beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The Plans' provisions and benefits in effect at June 30, 2015, are summarized as follows:

	Miscellaneous	
Hire date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2.7% @ 55	2% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50	50
Monthly benefits, as a % of eligible compensation	2.70%	2.00%
Required employee contribution rates	8%	6.25%
Required employer contribution rates	25.22%	25.22%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. SVP is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

NOTE 7 – RETIREMENT PLAN – DEFINED BENEFIT PENSION PLAN (continued)

For the year ended June 30, 2015, the contributions recognized as part of pension expense for each Plan were as follows:

	Miscellaneous Tier I
Contributions - employer	$5,335,643

B. Net Pension Liability, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2015, SVP reported net pension liabilities for its proportionate shares of the net pension liability of each Plan as follows:

	Proportionate Share of Net Pension Liability
Miscellaneous	$ 69,068,338
Total Net Pension Liability	$ 69,068,338

SVP's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2014, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedures. SVP's proportion of the net pension liability was based on a projection of SVP's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. SVP's proportionate share of the net pension liability for each Plan as of June 30, 2013 and 2014 was as follows:

	Miscellaneous
Proportion - June 30, 2013	34.97%
Proportion - June 30, 2014	34.97%
Change - Increase (Decrease)	0.00%

For the year ended June 30, 2015, SVP recognized pension expense of $4,382,201. At June 30, 2015, SVP reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

NOTE 7 – RETIREMENT PLAN – DEFINED BENEFIT PENSION PLAN (continued)

Miscellaneous Plan:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 5,335,643	$ -
Differences between expected and actual experience	-	-
Changes in assumptions	-	-
Net differences between projected and actual earnings on plan investments	-	(9,837,338)
Total	$ 5,335,643	$ (9,837,338)

$5,335,643 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Fiscal Year Ended June 30	Deferred Outflows / (Inflows) of Resources
2016	$ (2,459,335)
2017	(2,459,335)
2018	(2,459,335)
2019	(2,459,333)

C. Actuarial Assumptions

For the measurement period ended June 30, 2014, the total pension liabilities were determined by rolling forward the June 30, 2013 total pension liability. The June 30, 2013 and June 30, 2014 total pension liabilities were based on the following actuarial methods and assumptions:

NOTE 7 – RETIREMENT PLAN – DEFINED BENEFIT PENSION PLAN (continued)

	Miscellaneous
Valuation Date	June 30, 2013
Measurement Date	June 30, 2014
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.5%
Inflation	2.75%
Payroll Growth	3.0%
Projected Salary Increase	Varies by Entry-Age and Service
Investment Rate of Return	7.5% (1)
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection applies, 2.75% thereafter
Mortality	Derived using CalPERS' Membership Data for all Funds (2)

(1) Net of pension plan investment and administrative expenses, including inflation.

(2) The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report.

All other actuarial assumptions used in the June 30, 2013 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011, including updates to salary increase, mortality and retirement rates. Further details of the Experience Study can be found on the CalPERS website under Forms and Publications.

Discount Rate

The discount rate used to measure the total pension liability was 7.5% for each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.5% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.5% will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

NOTE 7 – RETIREMENT PLAN – DEFINED BENEFIT PENSION PLAN (continued)

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.5% investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65%. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as they have changed their methodology.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years.

Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

NOTE 7 – RETIREMENT PLAN – DEFINED BENEFIT PENSION PLAN (continued)

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	47.0%	5.25%	5.71%
Global Fixed Income	19.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	12.0%	6.83%	6.95%
Real Estate	11.0%	4.50%	5.13%
Infrastructure and Forestland	3.0%	4.50%	5.09%
Liquidity	2.0%	-0.55%	-1.05%
Total	100%		

(a) An expected inflation of 2.5% used for this period.

(b) An expected inflation of 3.0% used for this period.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents SVP's proportionate share of the net pension liability for each Plan, calculated using the discount rate for each Plan, as well as what SVP's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

NOTE 7 – RETIREMENT PLAN – DEFINED BENEFIT PENSION PLAN (continued)

		Miscellaneous
1% Decrease		6.50%
Net Pension Liability	$	94,876,699
Current Discount Rate		7.50%
Net Pension Liability	$	69,068,338
1% Increase		8.50%
Net Pension Liability	$	47,435,859

Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

NOTE 8 – RESTRUCTURING OF THE CALIFORNIA ELECTRIC INDUSTRY

A. Long-term Power Purchase Contracts

SVP purchases wholesale electric power from various participants of the Western Systems Power Pool (WSPP), NCPA, MSR Public Power Agency (Note 6), Western Area Power Administration, and other sources to supply the power requirements of Silicon Valley Power's electric utility customers. SVP actively manages the financial risks inherent in these long-term contracts, including the risks arising from the changing spot market prices that move above and below the contract prices and from contract disputes that may arise from time to time. The cost of power is included in enterprise fund materials, services and supplies expense.

B. Restructuring of the California Electric Industry

Deregulation Legislation and Direct Access

The passage of AB1890 in 1998 triggered fundamental changes in the structure of the electric industry in California. The essential feature of AB1890 was to allow individual consumers the opportunity to buy energy directly from power producers and marketers, rather than from their local investor-owned utility. This was called direct access. Generally, AB1890 provided for creation of the California Power Exchange (Cal PX), which was to be a clearinghouse for energy transactions among investor-owned utilities, independent generators and power marketers, who

NOTE 8 – RESTRUCTURING OF THE CALIFORNIA ELECTRIC INDUSTRY (continued)

in turn would serve direct access customers. AB1890 also created the California Independent System Operator (CAISO), which was to manage the state's bulk transmission grid. In addition, investor-owned utilities were encouraged to sell a substantial portion of their generating facilities to third parties, which they did. AB1890 further provided for a four-year freeze of investor-owned utility rates and recovery by investor and publicly owned utilities during this four-year period of so-called "stranded costs" arising from what were thought at the time to be uncompetitive generation investments. AB1890 also encouraged, but did not require, municipal utilities to establish direct access programs.

In 1999, the City Council adopted a direct access program that provided for a stranded cost charge, or Competition Transition Charge, subject to legal validation of the City's and SVP's right to collect such a charge. That validation was secured in 2000, and SVP's direct access program was to commence in April 2001.

However, in 2000 and 2001, the price of electricity at the Cal PX became extremely high, and investor-owned utilities were unable to pay for the energy that they needed from the Cal PX. These conditions caused the passage of AB1X by the California legislature, pursuant to which investor-owned utilities' energy procurement function was assigned to the California Department of Water Resources. AB1X also suspended direct access for investor-owned utilities, essentially until 2013. In 2009, SB695 added Section 365.1 to the Public Utilities Code, which allowed limited reinstatement of direct access for certain customers of investor-owned utilities. Except for this change, Section 365.1 continues the suspension of direct access until the Legislature, by statute, repeals the suspension or otherwise authorizes direct transactions. No such statute has occurred. Based on this development, SVP has deferred implementation of its direct access program.

Other Effects of Restructuring

The restructuring of the electric industry has created a substantially changed market for electricity. Compared to the prior market structure, this market has exhibited increased uncertainty and volatility. In anticipation of this restructured market, SVP developed a strategic plan to guide its electric utility's transition efforts into the new environment. As part of the Strategic Plan, the Rate Stabilization Fund (previously called Cost Reduction Fund) was established to protect ratepayers from rate volatility in future years due to revenue shortfalls or unexpected costs.

The strategic plan is a multi-pronged strategic initiative to address electric generation, transmission and distribution business issues given both the initially anticipated operating environment, and the operating environment that has actually evolved. The City's management

NOTE 8 – RESTRUCTURING OF THE CALIFORNIA ELECTRIC INDUSTRY (continued)

believes that the strategic plan has been an effective tool for the electric utility as it has transitioned into the new environment.

Energy Wholesale Trading and Risk Management

SVP participates in the wholesale gas and power market and the California Independent System Operator's centralized market. SVP engages in the trading of commodity forward contracts (gas and electric energy contracts). Activities during the fiscal year were substantially considered hedging transactions and, as such, have been accounted for using the settlement method of accounting. Accordingly, related gross purchases and sales totaling $32.6 million and $27.3 million, respectively, for fiscal year ended June 30, 2015, have been separately reported on the statement of revenues, expenses and changes in net position.

The restructured electric wholesale market exposes SVP to various risks including market, credit and operational risks. Active and effective management of these risks associated with the power trading activity is critical to its continued success and contribution to the entire utility. A Risk Management Committee, separate from the units that create the risk exposures, overseen by a Risk Oversight Committee that reports ultimately to the City Council, administers and monitors compliance with the risk policies and procedures on a regular basis. The City and SVP believe that it has the resource commitment, and effective policies and procedures, and is continuing to improve the control structure and oversight for evaluating and controlling the market and credit risks to which it is exposed.

Credit Arrangements

The City maintains credit policies, procedures, and systems for SVP that help mitigate credit risk and minimize overall credit risk exposure. The policies include transacting only with investment grade counterparties, evaluating of potential counterparties' financial condition and assigning credit limits as applicable. These credit limits are established based on risk and return considerations under terms customarily available in the industry. Additionally, The City is a signatory to the WSPP netting agreement supplement and otherwise, enters into master netting arrangements whenever possible and, where appropriate, obtains collateral prior to trade execution. Master netting agreements incorporate rights of setoff that provide for the net settlement of subject contracts with the same counterparty in the event of default.

NOTE 9 – MAJOR SUPPLIERS

SVP purchases wholesale electric energy through its participation in the NCPA and M-S-R Public Power Agency joint powers agencies, from the Western Area Power Administration, from the market via the California Independent System Operator (CAISO), and from other sources to supply its retail electric utility customers. Additionally, SVP purchases transmission services through its participation in the TANC and from the CAISO.

The purchases of energy and transmission services that represent 5% or more of the total purchased power costs are shown in the table below:

Supplier	Power Purchased	% of the Total Purchased Power
M-S-R Public Power Agency	$ 54,170,948	27.00%
NCPA	59,670,488	29.74%
Tri-Dam Project	15,518,798	7.73%
CAISO	28,479,510	14.19%

NOTE 10 – COMMITMENTS AND CONTINGENCIES

Commitments and contingencies, undeterminable in amount, include normal recurring pending claims and litigation. In the opinion of management, based upon discussion with legal counsel, there is no pending litigation, which is likely to have a material adverse effect on the financial position of the fund.

SVP has future commitments under construction projects as follows:

	Authorized	Expended Through June 30, 2015	Remaining Commitments
Electric Projects	$ 102,288,829	$ 41,224,610	$ 61,064,219

CITY OF SANTA CLARA ELECTRIC UTILITY ENTERPRISE FUND
(SILICON VALLEY POWER)

REQUIRED SUPPLEMENTARY INFORMATION

For the years ended June 30, 2015 and 2014

This part of the City of Santa Clara Electric Utility Enterprise Fund Financial Statements provides detailed information to better understand the data presented within the financial statements and note disclosures.

SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS

Discloses the changes and components of the net pension liability and related ratios, including the pension plan’s fiduciary net position as a percentage of the total pension liability, and the net pension liability as a percentage of covered-employee payroll.

SCHEDULE OF CONTRIBUTIONS

Contains information of the employer’s contractually required contribution rates, contributions to the pension plan and related ratios.

Schedule of Changes in the Net Pension Liability and Related Ratios
City of Santa Clara Electric Enterprise Fund Miscellaneous Plan,
a Cost-Sharing Defined Benefit Pension Plan
Last 10 Fiscal Years[(1)]

	Fiscal Year Ending June 30, 2014
Total Pension Liability	
Service Cost	$ 3,617,908
Interest	15,026,265
Changes in benefits	-
Differences between expected and actual experience	-
Changes of assumptions	-
Benefit payments, including refunds of employee contributions	(10,437,547)
Net change in total pension liability	8,206,626
Total pension liability - beginning	203,760,021
Total pension liability - ending	$ 211,966,647
Plan Fiduciary Net Position	
Contributions - employer	5,206,247
Contributions - employee	1,902,198
Net investment income	21,456,937
Benefit payments, including refunds of employee contributions	(10,437,547)
Net change in plan fiduciary net position	18,127,835
Plan fiduciary net position - beginning	124,770,474
Plan fiduciary net position - ending	$ 142,898,309
Net Pension Liability - ending	$ 69,068,338
Plan Fiduciary Net Position as a percentage of the total pension liability	67.4%
Covered - employee payroll	$ 20,000,599
Net Pension Liability as percentage of covered-employee payroll	345.33%

Notes to Schedule:

(1) Fiscal year 2014-15 was the first year of implementation, therefore only one year is shown.

Benefit changes: The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2013.

Schedule of Plan Contributions
City of Santa Clara Electric Enterprise Fund Miscellaneous Plan,
a Cost-Sharing Defined Benefit Pension Plan
Last 10 Fiscal Years[1]

	Fiscal Year Ending June 30, 2015
Actuarially determined contribution	$ 5,335,643
Contributions in relation to the actuarially determined contributions	(5,335,643)
Contribution deficiency (excess)	-
Covered-employee payroll	$ 20,000,599
Contributions as a percentage of covered-employee payroll	26.68%

Notes to Schedule	
Valuation date	6/30/2012

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	28 years as of valuation date
Asset valuation method	5-year smoothed market
Inflation	2.75%
Salary increases	3.30% to 14.20% depending on Age, Service and type of Employment
Investment rate of return	7.50%, net of penson plan Investment and administrative expenses; includes inflation
Retirement age	67 yrs. Misc.
Mortality [2]	Derived using CalPERS' Membership Data for all Funds

(1) Fiscal year 2014-15 was the 1st year of implementation, therefore only one year is shown.

(2) The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and Post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.

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